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UNCLAS SECTION 01 OF 04 MOSCOW 002912

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SUBJECT: Russia Adopts Law on Energy Savings and Energy Efficiency

MOSCOW 00002912 001.2 OF 004

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1.(SBU) Summary: On November 24 2009, Russian President Dmitry Medvedev signed a law on energy savings and energy efficiency. The long-awaited legislation creates a framework to meet a goal to increase the country's energy efficiency by 40%. In particular, the law restricts the sale of incandescent light bulbs, sets requirements for energy efficiency labeling on products, sets energy efficiency requirements for new buildings, and provides for obligatory metering in residential buildings. The legislation is focused on improvements in the residential, communal, and budget-financed areas; and to a less extent provides stimulus or incentives to private businesses. While a promising start, coordination and implementation will be a challenge. One test will be pilot projects approved under the Presidential Commission for Modernization and Technological Development of Russia's Economy. End Summary.

Main Provisions of the Law

Provision 1 -Restrictions on Incandescent Bulbs

¶2. The law prohibits manufacturing, importing, and selling incandescent bulbs of 100 watts and more from January 1, 2011. The law recommends a timeframe for eventual prohibition of manufacturing, import, and sale of 75 watt bulbs and more from 2013 and for 25 watt and more, from 2014. A request is addressed to the Russian Federation Government to adopt rules of waste disposal for spent compact fluorescent bulbs.

Provision 2 -Energy Efficiency Labelling

Manufacturers/importers must provide energy efficiency class labeling on the following products:

Electricity-consuming household appliances-from 2011

Computer and office equipment-from 2012

Other goods as determined by the Russian Federation Government-from 2013 and further

Provision 3 -Mandatory Commercial Accounting of Energy Resources

¶3. All legal entities and state institutions must be provided with

energy resource metering devices by January 1, 2011, and pay for consumed resources on the basis of the meters' data. Owners of residential houses or apartments in blocs and compounds will have the right to apply to the resource provider for meter installation, subject to payment [of associated costs] by installments over five years. Should the consumer fail to have installed a meter within the designated timeframe, the resource-providing organization is bound to install such a metering device and the consumer is to cover associated costs on terms of payment by installments over five years.

Provision 4 -Energy Efficiency Requirements for New Buildings, Structures and Facilities

14. All buildings, structures, and facilities (except individual homes built for one's own use, religious buildings, and small buildings) being commissioned after new construction or capital repairs shall comply with energy efficiency requirements and have energy resource metering devices both at the time of commissioning and during the operation of the building. The energy efficiency class of new multi-apartment buildings must be determined and displayed on the facade of the building.

Provision 5 - Budget-funded Institutions and Government Procurement

15. The law sets a goal of an annual 3% reduction in energy consumption for all federal budget institutions from 2011. Cost savings resulting from this reduction will go to the institution's salary funds. The purchase of incandescent bulbs of any capacity to be used for lighting is forbidden from 2011. With respect to government procurement, the Russian Federation Government shall approve minimum energy efficiency specifications for goods, work and services, as well as requirements applicable to energy service contracts concluded by budget-funded organizations.

MOSCOW 00002912 002.2 OF 004

Provision 6 -Requirements for the Maintenance of Common Property in Multi-Apartment Buildings and Recommendations for Garden and Dacha Associations of Individuals

16. The Rules of Common Housing Property Management by Apartment Owners in a Multi-Apartment Building are complemented with mandatory energy saving and energy efficiency arrangements. They may include, among other provisions, replacement of bulbs with energy efficient models, availability of a double external door at house entrance with a door closer, devices to regulate lighting in the entrance, and window and entrance door sealing. Recommended energy saving and energy efficiency arrangements are also established for the common property of garden and dacha associations of individuals.

Provision 7 -Mandatory Energy Audits

17. State agencies, natural monopolies, fuel and energy complex facilities and organizations in which the annual energy consumption exceeds 10 million rubles (about \$345,000) are required to carry out energy audits once every five years. The purpose of energy audits is to collect and process data on the use of energy resources, estimate potential savings and design necessary energy saving and energy efficiency activities. Energy audits will result in a passport to be submitted to an authorized federal agency, which shall determine requirements applicable to such passports.

Provision 8 -Energy Saving and Energy Efficiency Enhancement Programs

18. The law calls for energy saving and energy efficiency enhancement programs to be developed by all state-owned companies, budget-funded institutions and regulated organizations as well as regions and municipalities. The law establishes minimum requirements for regional and municipal programs. The programs shall specify target indicators of energy efficiency enhancement and actions toward achieving them.

Provision 9 -Energy Service Contracts

19. The law describes energy service contracts conceived to facilitate energy savings by individuals and legal entities without investing their own funds, i.e. to be financed by energy service companies. Payment under an energy service contract will be funded by a portion of saved resource costs. The law introduces obligations for resource-supplying organizations and managing organizations to propose certain energy saving and energy efficiency arrangements to the population, including through implementation of energy service contracts.

Provision 10 -Transition of Long-Term Tariff Regulation

10. A major incentive to increase energy efficiency of natural monopolies and organizations of the district utility sector is the application of long-term (for three or more years) tariff solutions and a return-on-investment method with concurrent fixed corporate commitments pertaining to quality and further development of the services provided. Under such regulation, companies will get serious incentives to reduce costs, including energy costs, and to increase the efficiency of resource use because any savings are retained by the entity. The law provides for a mandatory transition to long-term regulation within the following timeframes:

In the electric power sector
For the FSK (Federal Grid Company)-from 2010
For utilities of the MRSK (interregional distribution utilities) holding group-within 2010
For other electric utilities-from 2012
In heat supply-from 2012

Provision 11 -Establishing a Single (Interagency) System for Energy Efficiency Information and Analysis

11. A State Information System will be established in order to systematize collection and exchange of energy consumption information at federal, regional, and municipal levels; obtain analytical data on the use of energy resources and energy saving

MOSCOW 00002912 003.2 OF 004

potential; and to inform Russian Federation constituents and population about energy saving opportunities and best practices.

Provision 12 -Forms of State Support for Energy Saving and

Enhancement of Energy Efficiency

112. The law provides for the possibility to apply increasing multipliers to the depreciation rate or investment tax credits, as well as reimbursement of interest paid on loans for the implementation of energy saving and energy efficiency enhancement projects.

Provision 13 -Technical Regulation

113. The law establishes several requirements which pertain to issues subject to technical regulation (requirements to buildings, product trade, marking, waste disposal). In order to coordinate with technical regulation legislation, a concept is prescribed under which provisions of this law shall be effective until respective technical regulations have been adopted.

Provision 14 -Supervision of Implementation

114. The law establishes an integral system of control and responsibility for a breach of legislative provisions in the area of energy saving and energy efficiency enhancement, including through detailed stipulation of administrative liability for a breach of law and identification of agencies that will monitor the violations in question.

"Laws too gentle are seldom obeyed; too severe, seldom executed"
(American proverb)

115. (U) Even a law perfectly written is useless unless there are effective mechanisms in place to implement this law. In August 2009, Prime Minister Putin ordered the Ministry of Economic Development

(as lead) and several Federal Agencies to develop normative acts needed to implement energy efficiency legislation. The list of normative acts includes 49 documents in the form of Presidential decrees, Government resolutions, and Federal agencies' resolutions. In addition, for each of the normative acts, a list of implementing activities outlines the responsible federal agency, and a timeframe for their realization. The first normative acts are to be approved by the Government before the end of the year. Among the first to come is a Government decree to define responsibilities among various Federal agencies, including the Ministry of Economy, Ministry of Energy, Ministry of Industry and Trade, Ministry of Regions, Federal Antimonopoly Service, Federal Tax Service, and others in the area of energy saving and increase of energy efficiency.

Pilot Energy Efficiency Projects

¶16. (SBU) One way to test whether the new legislation works will be pilot projects that have been approved under the Presidential Commission for Modernization and Technological Development of Russia's Economy. The first project involves installing devices to register and regulate energy consumption. This project, managed by the Complex Energy Systems Company, will be implemented in selected cities and apartment blocks. Ministry of Industry and Trade is in charge of the second project to develop production of effective lighting systems in Russia. The third and fourth projects involve modernizing some city districts and small towns with the subsequent spread of their experience to other parts of the country, and the development of an energy-efficient social sector. Tyumen, Kazan, Vorkuta, Apatity, and Ekaterinburg have been selected as pilot cities. The fifth project deals with small-scale complex energy systems and the introduction of new technology in this sector. The sixth project will see the implementation of new work on superconductors and biofuel. Prospects for developing solar and hydrogen energy should be explored further. According to Deputy Minister of Economy Voskresensky, all pilot projects, with the

MOSCOW 00002912 004.2 OF 004

exception with the one on innovative technologies, will receive no financial support from the Federal budget. Mechanisms such as ESCO (Energy Service Companies) or concessions will be tested while implementing these projects.

¶17. (SBU) Comment: The law on energy saving and energy efficiency is a real breakthrough considering long-standing Russian neglect of energy saving and energy efficiency issues. However, implementation is a concern. Assuming the law is put on force, and all by-laws are approved on time, much will depend on whether the government will be able to manage such a complicated task. Thus far, coordination among the various government agencies involved is not very good.

¶18. (SBU) The government rejected the idea of creating a single agency which would be responsible for implementation of the energy efficiency legislation and all related programs. Having energy efficiency responsibilities disbursed among various agencies without clear responsibilities, constant coordination, and strong leadership could make implementation of the law quite difficult. In addition to the organization structure, it would be important to have the energy efficiency legislation synchronized with other legislation, such as legislation on heat supply, technical regulation and others.

¶19. (SBU) Another concern is that the law is heavily focused on residential, communal and budget-funded sectors; while providing very little stimulus to private businesses to enhance their energy efficiency. According to Deputy Minister of Economic Development Voskresensky, this was done on purpose because the government believes that the main stimulus for businesses is the plan for energy price liberalization and no other stimuli are needed. And last, but not least, the government will have to make an enormous effort in order to educate the population to effectively use energy resources. Radically changing people's mentality is probably the major task of the new energy efficiency legislation. End comment.

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